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# LABOR'S STAKE IN SOCIAL SECURITY

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LECTURE SERIES NO. 6

UNIVERSITY OF ILLINOIS



## LABOR'S STAKE IN SOCIAL SECURITY

by Nelson Cruikshank, Director  
Social Insurance Activities  
American Federation of Labor

I want to talk on a subject which is of a very great current interest, "Labor's Stake in Social Insurance". If we change our subject slightly to "Labor's Stake in Social Security" we narrow it down to manageable size. Social insurance is a method of providing social security.

The security of working people of course can finally rest only on one thing--a sound economy, operating at a high level of production with as nearly full employment as possible. That is the basis of security and nothing can take its place. No social insurance, no legislative insurance plan, can of itself provide security. It can only--to an extent--underwrite security against certain inherent risks.

Labor's search for security is by no means unique although some of the interpretations put upon it by the press would lead one to think only labor is concerned about security. It is not; either in respect to being the concern of one group of people--those who work for wages--or with respect to any one period of time.

Everybody Wants Security

I think generally, all people have sought security at all times and at all places. The business man, when he ventures his capital, is not doing it for the love of the risk involved. He does it largely--not altogether but largely--with the hope of providing enough gain for himself so that he can secure his future. Our nation was founded and expanded by men who fled from other lands which had a type of security provided at a lower standard of living. They came in search of a new security at a higher standard.

Security and adventure are not in conflict as some would have us think. They actually complement each other. Men are more ready to take risks if there is a certain underwriting of their security. We see a man engaged in battle with a sword in one hand and a shield in another--a shield with which he hopes to protect himself against the casualties of battle. The shield does not in any sense reduce his valor and courage. It enhances them considerably. In modern battle we see men engaged in the most hazardous of all occupations but conscious of the fact that if they become a casualty there is a medical corps back of the lines to take care of them. Surely the existence of a competent medical corps ready to patch up their wounds and make them well again does not reduce their valor in battle. And so a system of social security which underwrites to a certain extent the risks that are inherent in our modern economy does not reduce but enhances the readiness to take risks.

Social security--contrary to what is frequently inferred or said about it--does not take the place of the economic endeavor. It does not set a ceiling but only sets a floor, and the sky is still the limit once the floor, below which no man can be allowed to fall, is established.



Now of course this field of social security, or social insurance as a means of security, is very broad. We have through the past 35 or 40 years endeavored to meet many of the risks that are inherent in any industrial society. We began some 40 years ago to underwrite the wage loss that results from injury on the job. We did it by a system of state workmen's compensation. That was the first of our social insurances. We have moved on to unemployment compensation. We have a vast system of public assistance which is not one of the insurances but is a part of the social security scheme. We are thinking in terms of a health insurance program. We have the Old-Age and Survivors Insurance program and intend to add to that an insurance against physical disability.

#### Security in Old Age

But we can't cover all that this evening and I should like then as much as possible to narrow the subject of our thinking tonight to this matter of security in old age. Even this is a broad and complex subject. There are many ways of providing security and they are not by any means exclusive. There is the method of individual savings and the method provided by enhancing the purchasing power of those savings through investments, home ownership and ownership of productive capital.

This evening as we talk about labor's stake in social security, we are asking by what means or device can a person who depends upon wages for his income best provide for security in old age.

For most people who depend on wages for their income there is no sure means of security in old age except through a social security agency. If you don't believe this, just look at what it takes to provide old age security. We can see how almost impossible it is for the worker to provide all of that security through any of the other means except social insurance.

#### Annuites Too Expensive

Because of the great advances of medical science today a man can expect to live nearly  $15\frac{1}{2}$  years after he reaches the age of 65. The limited minimum budget which the Bureau of Labor Statistics says is necessary for him and a wife is from \$1440 to \$1830 annually, depending upon the city in which he lives. For him to provide even that kind of a minimum subsistence income for a period of  $14\frac{1}{2}$  years he needs about \$15,000 to \$18,000 to purchase an annuity.

His wife, if she is 65, has now a life expectancy of  $17\frac{1}{2}$  years. But in most cases, when the worker reaches 65 the wife is not 65, but  $2\frac{1}{2}$  or 3 years younger. So the man reaching the age of 65 has a life expectancy of nearly  $14\frac{1}{2}$  years and has a wife with a life expectancy of nearly 20 years. To provide this minimum budget for this period a worker would have to purchase an annuity worth 25 or 30 thousand dollars.

When we just name that figure we realize how nearly impossible it is for an individual worker to save that much money, especially if he fulfills the other normal or natural desires of wage earners: to have a home, to have some of the pleasures of life, to have a family, to give that family a better chance than he had. An education is expensive; and other advantages he wishes to provide require heavy expenditures at his maximum earning capacity when he is in the prime of his life. There is little chance for an individual worker to save 25 or 30 thousand dollars and have that much cash on hand to purchase an annuity when he reaches the age of 65. That is an apparent fact to anyone who has lived on a worker's wages.



### New Methods Needed

So most of the traditional methods of providing security are not available to wage earners. Now there were other methods of providing security in earlier primitive societies. Security, as I have said, is not peculiar to this time. It is not peculiar to the period of negotiation for the coal miners and the steel workers or the auto workers or the aluminum workers, nor any other group of workers who have recently negotiated to provide some security.

Such programs as maternal and child care, which are a part of our broad social security program, have been provided in some way or another from the earliest times. When the family was more stable and their economy was simpler we had maternal and child care--grandmother stayed with the daughter until the children were about of school age or even a little older. The wife wasn't concerned when the children were born, about the children's care. Her mother was with her, in most instances, or neighbors, friends, or others provided something of that kind of care.

Now, however, families are broken up earlier. Our labor force is much more mobile. Son and daughter are married and move to Texas or the Pacific Northwest or wherever else, and the children are a rather long ways away from grandmother. You need a program for maternal and child care.

So also at the other end of the scale there was a time in an agricultural society when a large family of sons was a guarantee of security in old age. It was accepted as such but the breakup of the family at an earlier age and the demands of an industrial society have meant that we have had to find other methods of providing the security which the family group or the neighbor group or the tribal group provided. We must resort to the common means of exchange--money--in any security plan which we make through the government.

What we have done and what we are doing is really to extend the concept of the family to include the broader group. Through the one organization to which we all belong--our government--we are doing for ourselves just as we always did for ourselves. We are merely using different techniques and different means.

### Social Security Not New

As I said, these problems are not new. In early Rome free corn was made available in times of famine and in Charlemagne's empire the parishes were made responsible for their own poor. The same principles which were followed in Western Europe and America have continued down to our own time.

Cities later tried to devise programs to meet the needs of different categories of the poor--the blind, the widows with children, those who were ill. The general trend has been from the family to the parish to the city or county to the state to the national government, as the units of society have become more mobile and moved around more freely over broader geographic areas.

Now, these aids I have just mentioned were largely designed for those who failed to provide for their own security or welfare. At first these aids were for those whose failure was obvious. Later for those whose needs could be proven, then programs developed for those who, through no fault of their own, had been deprived of their means of livelihood. There were burial societies even among the early Romans. There were trade guilds in early Medieval times. Later the friendly societies or fraternal orders in Western Europe. The employee's mutual



benefit society was characteristic of early America. Some of the first labor organizations were mutual benefit societies. The carpenters in Philadelphia and New York, among others, were organized as mutual benefit societies long before they attempted to negotiate for wages or other conditions of employment..

So there is a long history of people trying to provide security and protection against the loss of income through mutual effort and spreading the risks, and that, in simple words, is insurance.

### Greater Need Today

Now this problem is becoming more acute. Our population is aging--one of the by-products in large part of the improvements in medicine. In 1920 only 7% of the population of working age was over 65. At the present time it is a little over 11%. By 1965 it will be 14%. And on the basis of evidence available, by the year 2000--only a little more than a generation away----20 to 25% of our population will be over 65.

That presents us with some very difficult problems. In 1900, for each person over 65 there were 13 persons in the age group from 20 to 64 which we think of as a normal working age. There were 13 to support one retired at 65; at the present time there are 8 people in the normal working age bracket for each person over 65. By 1965 there will only be 6 in the normal working age bracket, and, if the estimates for the year 2000 are accurate, there will only be 4 or 5 people in the normal working age bracket for each person who is beyond the age of 65.

Now if that does not make the problem difficult enough, add the fact that because our life is becoming more complicated, the period of training and education at the other end of the age scale is getting longer all the time. It takes more years to learn certain trades today. A few years ago an electrician just had to learn a few simple circuits, and something about the loads on wiring. But now he needs to know a lot more and the period of his apprenticeship is longer. He must not only be a good practical engineer, but must also know about installation of electrical equipment, something about electronics and many other things to be a real journeymen in his trade. Other trades are becoming more complicated and necessitate more training. The professions also require longer periods of training.

So while we have this increasing number of older people to be supported by people in the 20 to 64 age bracket, there is also a trend to raise that age 20. This means we will have more people at both ends of the scale that, in terms of economic production and economic goods, will have to be supported.

### Government and Social Security: A Beginning

In 1935 the federal government undertook a limited kind of program to meet the problem of old age retirement--the problem of security. There were a number of reasons why this happened in 1935. For one, the great number of private plans that had been negotiated earlier were breaking down. Notable among those were the retirement plans that had been developed by the railroads. There were many other plans, both in public and private employment that were financially unable to ride a depression. Another reason the federal plan began in 1935 was the tremendous cost of relief. Older people in that time of job scarcity were looking to public relief more than they had been at any other time. Also, there was the awakening interest in the problem of security in old age and pressure from labor and other sources to do something about it.



The government didn't attempt to provide security entirely, but simply attempted to underwrite a proportion of the wage loss resulting from old age. When this limited program was enacted it was understood that it represented a limited approach to the problem. It would not provide complete security, and we expected that there would be many plans that would supplement the government program. This is evident by the fact that very significant tax exemptions were provided to employers providing such plans. This was done to encourage the development of private plans.

It is equally clear, however, that Congress did not expect the private plans to be developed as a substitute for the public or government plan. This is clear in the record of the proposed Clark Amendments in 1935. These amendments would have--had they been enacted--provided that employers would not need to pay the social security tax if they had a private pension. The defeat of the Clark amendments clearly indicated that Congress did not mean that private plans would be a substitute for government plans, while indicating the desirability of supplementary plans.

The old age insurance part of the Social Security Act has remained basically unchanged since its enactment in 1935. Amendments in 1939 liberalized the benefits, liberalized the eligibility standards somewhat and added the survivors and dependents benefits which moved the program from one of individual security to one based on family security. Other than these amendments there has been no important change. There were amendments year by year preventing the contribution rate going up to 3% as was originally provided in the act of 1935 and holding the contribution rates to 1% instead. There was extensive liberalization of public assistance. These were programs of federal grants-in-aid to the states to provide direct cash relief.

This was a stop-gap program. It is recognized that in a private pension you can give credit for past services so that men or women who are almost ready to retire can be given credit for their past services. In a public plan they could not be given credit for their past service; it is not feasible to do so. It was also recognized that the coverage of the program was not complete and therefore there would be people who would fall through the meshes of this net. There needed to be a finer mesh net so that the program which was enacted--and it was clearly indicated by the debates in Congress, and by the reports of Congressional Committees--would be a temporary measure and the insurance system would ultimately displace the need for relief. However, the liberalizations of the law by Congress in the last 10 years have been in the field of public assistance rather than in the insurance program.

#### Need for Revision

Now this plan, which was completed in 1939, was only two years old when we entered the war. It was not yet ready to be revised. The period from 1945 to 1948 was the logical time to overhaul the plan. Its inadequacies were already apparent. It was recognized in 1935, when it was enacted, that it was experimental in nature and the benefits provided were only of an experimental kind. It was not claimed by anyone that they were adequate then. But after the war with the rise in prices, the inadequacies of the program became clear, and that was the time when the system should have been overhauled. It is therefore one of the major failures of the 80th Congress that it did not overhaul the basic social security system. There was a 721-page report by the House Ways and Means Committee which showed its inadequacies which were never anywhere seriously denied. But instead of meeting the needs of the system, the 80th Congress confined itself



to the single action of removing three-quarters of a million people from coverage who had been under the system. The famous Gearhart resolution took salesmen, part-time workers and individual contractors who had been under the system for ten years or better, out of the system. That was the contribution of the 80th Congress.

The 80th Congress, however, also set up an Advisory Council to the Senate Finance Committee to study the need for overhauling the system. This council was composed of 17 members, representing management, investment, the public, agriculture and labor. The Council pointed out three major deficiencies of our old-age and survivors insurance system. They pointed out that eligibility standards were too tight; so that only one out of five persons 65 years of age or over is eligible for social security benefits. Also the benefits are entirely too low. With an average primary benefit of only \$25 per month, a retired worker gets only about 40 dollars a month for himself and his wife. This represents a decline of about 40 percent in actual purchasing power since the program was enacted.

Now this failure to meet the recognized need for revising the system left a vacuum. I don't know if "nature abhors a vacuum," but in the political and economic system a vacuum is definitely abhorred, and usually something is done about it. If it isn't done in the best way it is done in the next best way, and the age-long desire for workers' security was not to be denied. Attempts were made to fill this vacuum in a number of ways.

#### Private Plans

In the first place there was a great increase in the number of employer-arranged plans. These are relatively new in our scheme of things. There were only 200 in existence in 1915. By 1929 there were only 400. But by 1949 there were a little over 9,000 of them. These plans had many significant deficiencies. Dr. Sumner Slichter of Harvard in a recent article in the New York Times Sunday Magazine has outlined the major deficiencies of these plans--listing four things that are primarily wrong with them. First, he says they are inadequate with respect to coverage, for the specific reason that they are designed in the large part to meet the problems of the employer rather than the real problem of the employee. As a result, he points out, in the 9,000 existing plans less than a third of the employees working for the companies that have such a plan are covered by the plan.

Second, they may be abandoned by the employer by unilateral action. That came up as a glaring element in the railroad retirement schemes, which were private-employer-initiated plans. When the financial stresses and strains of the late 20's and early 30's came, the benefits were arbitrarily reduced and the plans were arbitrarily abandoned, and workers who had stayed with the companies because of a promise of security suddenly found themselves deprived by unilateral action of the security which they had been promised.

There is, third, the fact that employer-initiated plans tend to restrain the movement of workers and an important part of our free economy is a mobile labor force. Just as businessmen should be encouraged to invest freely, workers should be encouraged to move to other jobs any time they can better themselves. There should not be a restraining influence on their movement in their having an equity in a plan which they cannot carry with them to another employment.



Fourth, it is more difficult for older workers to find employment. When ever the employer-initiated plan provides retirement at a certain age it is obvious that when a person over 40 applies for a job with that company, the company sees that before too long it will have him on the retirement list. Therefore it is almost inevitable that the company will follow a policy of not hiring older workers.

#### Union-Management Negotiated Plans.

Then there are the union negotiated plans. These received a great impetus during the war when the War Labor Board recognized retirement plans and security plans as "fringe issues" which could be granted when it was against the national policy to grant a direct wage increase. Such plans were given another great encouragement by the April 18, 1948 decision of the National Relations Board in the Inland Steel Case. The Board laid down the policy that retirement plans, security plans of all kinds were a proper subject of negotiation and collective bargaining agreements, and the requirement of the National Labor Relations Act for the employer to bargain with the union extended to the subject of security plans. Since that time there have been these incentives, for unions to bargain on, and to include these plans in collective bargaining agreements.

I think that there are some things that labor needs to think of very seriously about these union-negotiated plans. I think that it is well for us to bear in mind some of their shortcomings. In the first place the union negotiated retirement plans as an exclusive way to provide security may be bad public policy. The possibility of negotiating the plan depends in a large measure on the elements of chance. I think sometimes that it is like these "one-armed bandits" that we see--where you have to have the three gold bars come up or you get nothing.

Three major factors have to exist in negotiating of an agreement of this kind and if any one of them is missing it is very difficult if not impossible to negotiate such a plan. First there must exist a stable employment relationship with continuing employment with one firm or at least one group of employers. The second factor is that the union must be in a strong collective bargaining table. Third the industry must be able to pay the cost, and the cost is considerable for any kind of adequate security. I am not talking about \$10.00 a month pension or \$20.00 a month pensions but an adequate pension system. When the companies say these things are expensive they are not kidding. They are expensive.

Those three factors must be present and when anyone of them is missing it is difficult if not impossible to bargain on pensions. With the mine workers for example, there is a stable relationship with a group of employers, and you have nearly an immobile labor force. You also have a strong collective bargaining position and you have an industry that is able to pay.

But contrast this with the building trades. While in most places they have a strong collective bargaining position, and in the main they are dealing with employers who are able to pay, building tradesmen don't have the continuing employment relationship with one employer. In some large metropolitan areas building tradesmen can negotiate with an association or group of employers, but that is true only in a few large metropolitan areas. The plumber, the electrician, the painter, the carpenter and all the other building tradesmen working in the small towns all through the Middle West and the West work for a man in one city today and Tuesday and Wednesday for another and come back and finish the job with a contractor in the home city again. It is very difficult therefore.



despite the fact that he belongs to a strong union, for him to negotiate a collective bargaining agreement that runs for a long period of time.

A pension agreement is the longest kind of contract--except possibly a 99-year lease. Until 1945 the federal government was paying pensions on the war of 1812. Any kind of pension agreement is a long term contract, and you can't have that kind of agreement with the kind of a relationship that exists in many trades and occupations. It is doubtful if it is desirable even to attempt it. So what happens? In the needle industries where you have just this chance arrangement of circumstances you can negotiate these plans. But in others you can't.

#### Effect on the Economy

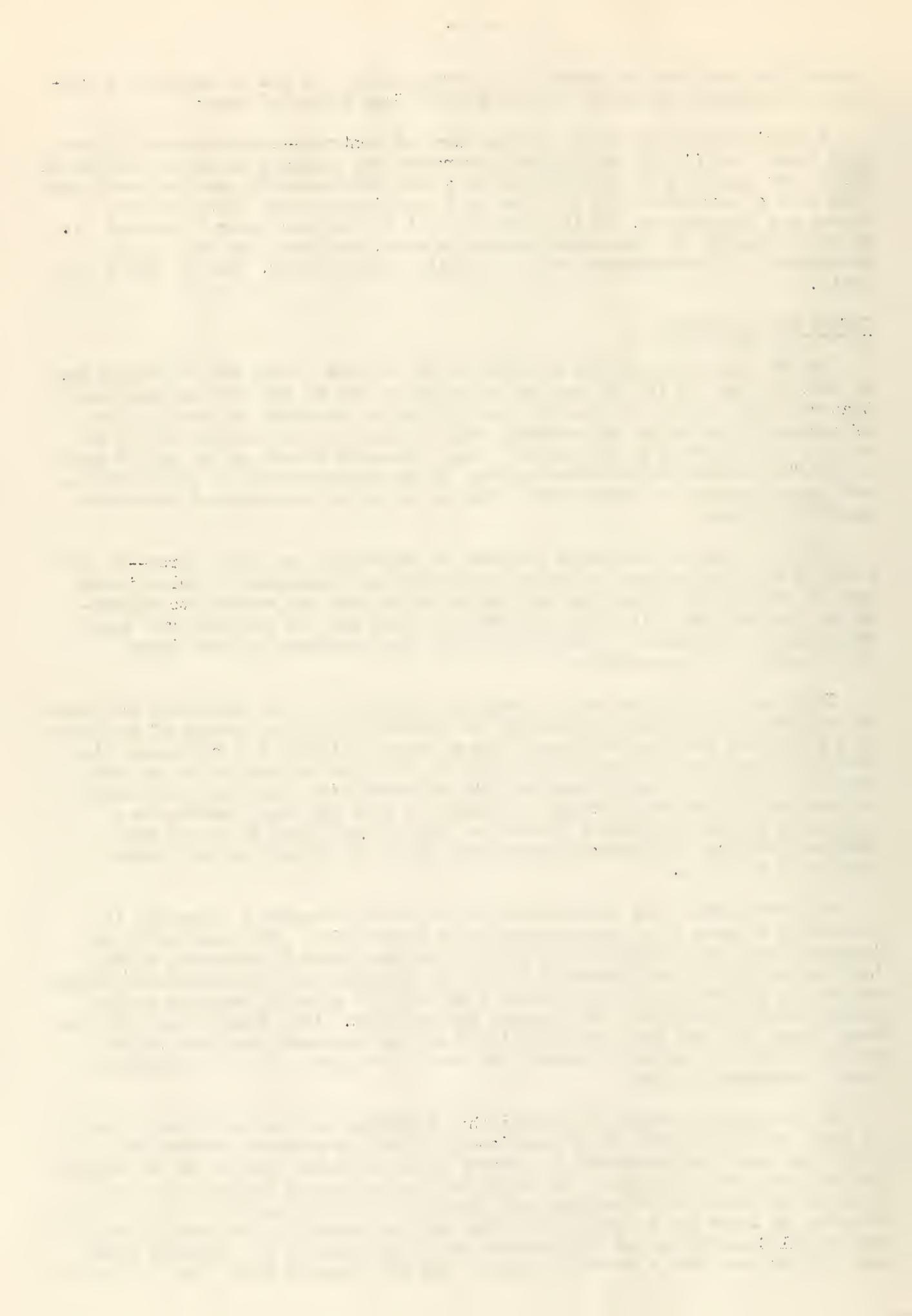
Now the cost of them will be added to the economy in one way or another and we will all pay for it. We are not objecting to it; we are only pointing out that when some groups of consumers have to pay for security of certain groups of workers depending on the circumstances of their type of employment, it is not the best possible public policy. Some consumers should not be called upon to pay for security which other workers, by the chance nature of their employment cannot secure for themselves. This is one major criticism of the union-negotiated plans.

There is also an inevitable tendency to immobilize the labor force--to tie a worker to a job because he has an equity that is increasing in value in one type of employment. This does not enable him to move and respond to opportunities that may exist in other employments. That may, in the long run, have major social drawbacks. It may even retard the development of new ideas, new industry, new enterprises.

Then there is the problem of financial soundness. It is extremely difficult, as evidenced by the plans negotiated, to provide for proper funding of the plans. In a few years, when more and more workers become eligible for retirement the financial strain on the employer to meet the benefits is going to be so great that he is going to have to confront his employees with a choice of reduction in benefits, a lowering of wages or refusal to meet new wage demands, or a tightening of the eligibility standards. All of which adds up to the same thing--a lowering of purchasing power for either the workers or the beneficiaries of the plan.

Now having said this and pointing out these deficiencies I recognize it presents a dilemma to a representative of a labor union. If I were still the business agent of a federal union--which I had the honor to represent at one time in the city of New Haven--if I were the business agent of that union today, so long as Congress has failed to act I am afraid I would be pressing an employer for the adoption of an adequate pension plan. And, despite the fact that these plans that are now being negotiated may not represent the best public policy or the best means of security we have to recognize that we probably owe them a considerable debt.

It is a peculiar thing in America that sometimes we move not in the direction of logic but in response to an immediate political or economic circumstance. We might even sometime paraphrase the prayer of St. Francis, "let us now be thankful for our brothers the birds." You might say "let us now be thankful for our brothers the screwballs" because very often the best of plans are adopted not in response to logic but to situations which are not logical. For example, we got the Social Security Act of 1935 because of the pressure of the Townsend Clubs and if there was ever a screwball plan it was the Townsend plan. But in 1935 it



wasn't the sound work done by Abraham Epstein and the National Association for Economic Security that got the job done--although of course they made a great contribution. For years they had been presenting a logical and reasonable program, but Congress did not respond to that. Congress responded to the Townsend Clubs. And it may be today that the very deficiencies of the plans that are being developed will push sound revision of the Social Security Act over the goal line.

#### An Adequate Government Program

However that may be, with the apparent need still existing for a revision of the Social Security Act, we believe the soundest program is to develop amendments to this basic Act. They were contained in a bill presented to Congress. It was reported out of the House Ways and Means Committee. It provided for extensive liberalization of the social security plan. It passed the House of Representatives by a 333 to 14 vote which gives us hope that it may pass the Senate in the next session. We believe that this is a sound approach, not that it will meet the entire needs of the whole program, but it will establish a floor which will enable others to complete the program by supplementary plans.

Congress first intended and it was our avowed national policy, for the public plan to be the basic plan with others supplementing it. The situation has been reversed with the private plan becoming the basic plan and government action supplementing it. It is not too late to reverse that situation, and direct the program toward a sounder policy. The enactment of the much needed, too long delayed, amendments to the social security act which would provide a broad and comprehensive public security program is a sounder way, we believe, of meeting the need.

First the coverage can be universal, and therefore enable a worker to carry equity in a retirement system with him wherever he goes. With the public plan it makes no difference whether he is working for employer A or employer B or employer C. His equity is with him as long as he has covered employment.

Second, it would not be a wage depressant; it would be outside of the collective bargaining sphere. Third, it would not militate against older workers because the equity would exist in the public funded plan. A worker who is 64 contemplating retirement at 65 can go to work for any one employer, retire at 65 with no additional cost having to be borne by that employer. This, I have pointed out, is not true of the private plan.

Then, lastly, it can more clearly be made financially sound, not only because of its broad coverage, its inclusive nature and the availability of resources of government funding, but also because of the increased revenue to the existing plan. We have a tremendous windfall that is already funded to about eleven billion dollars which gives us an unprecedented opportunity to establish a financially sound program.

The American Federation of Labor is therefore concentrating in the next session of Congress, on passage of the amendments that are necessary for social security to provide a financially sound plan--one consistent with sound public policy which will provide insurance against the risk of old age, and provide that security with dignity for all the people in America who depend on wages for a living. We believe this deserves not only the support of our membership but of public minded citizens everywhere.









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